

Date: May 17, 2011

To: Thomas J. Bonfield, City Manager
Through: Keith Chadwell, Deputy City Manager
From: Mike Barros, Director, Department of Community Development
Subject: HOME Agreements between the City of Durham and Housing for New Hope, Inc.

Executive Summary

On May 3, 2010, City Council approved the award of \$688,750.00 in Neighborhood Stabilization Program (NSP) funding to Housing for New Hope, Inc. (HFNH) to assist with the acquisition and renovation of a partially completed ten unit foreclosed apartment building at 1103 E. Oak Drive. Due to additional design improvements, expansion of the existing plan and underestimated cost of construction, HFNH is requesting an additional \$211,250.00 to assist in the renovation of the 1103 E. Oak Avenue property. When completed, the eight two-bedroom units and the two three- bedroom units will provide workforce housing to individuals or families earning 50% or below of the Area Median Income.

Recommendation

The Department of Community Development recommends that City Council authorize the expenditure of up to \$211,250.00 in HOME funds to support the renovation of a ten unit apartment building at 1103 E. Oak Drive and authorize the City Manager to execute a HOME Investment Partnership Agreement and the associated documents with Housing for New Hope, Inc. in the amount of \$211,250.00.

Background

On May 3, 2010, City Council approved the award of \$688,750.00 in Neighborhood Stabilization Program (NSP) funding to Housing for New Hope, Inc. (HFNH) to assist with the acquisition and rehabilitation of a partially completed ten unit foreclosed apartment building at 1103 E. Oak Drive. The original development budget submitted to the Department of Community Development was in the amount of \$1,150,000.00, which included the acquisition of the property. This budget was based on the general assumption that the project would be completed relatively quickly and without significant changes to the existing structure. As predevelopment work progressed, safety, accessibility and the general design were judged to be unacceptable and design improvements were added as necessary. These changes to the scope of work were added after the approval of the funding by City Council.

Through a competitive bid process, HFNH received five responses to the bid package created and advertised by DTW Architects and Planners, Ltd. The lowest bid was \$1,093,989.00 with the highest construction firm submitting a bid of \$1,277,000.00. The bid opening on February 3, 2011 revealed a development budget shortfall of approximately \$300,000.00. Below are the following items that contributed to the shortfall amount.

- On advice that emergency evacuation of the building could be difficult or impossible as originally designed, plans were revised to include removal of front stairs and wood entry hallway decking, and replacement with fireproof masonry staircase and steel/concrete hallway floor system that meet or exceed today's fire and accessibility code. The bid included costs of 72,000.00 for the improvements.
- The bid cost for site work, utilities, roadway widening, mold abatement and demolition is \$54,000.00 more than the original budget.
- Plans were expanded to replace all 12 entry doors, 20 undersized egress windows and installation of interior pocket doors throughout for greatly improved accessibility. Bid costs for doors, windows and hardware exceeded budget by \$31,000.00.
- Exterior window awnings were added to shelter southwest and southeast exposures. Bid costs of \$12,000.00.
- HVAC and fire protections systems were underestimated by \$56,000.00.
- Additional design work for these and other items lead to increased soft costs and it was learned that none of the required public works/storm water engineering or approvals had been completed by the previous developer. Architect, site plan, engineering and other soft costs increased by \$37,000.00.
- Payment in lieu of sidewalk to City of Durham will be \$14,000.00.
- Projected fees, reserves and escrows exceed the original budget by \$16,000.00.

The development variances itemized above equal \$300,000.00.

Issues/Analysis

A requirement of the NSP grant is that 30% of the allocation must be used for the creation of housing for individuals earning 50% or below of the Area Median Income. The renovation of 1103 E. Oak Drive was one of the projects targeted to satisfy this requirement. Once completed, the rental units will provide much needed housing to individuals or families earning 50% or below the Area Median income.

Alternatives

The City Council could elect to not approve the additional funding to HFNH. If the decision was made, alternative financing would need to be identified or the City would need to identify another project to meet the 30% allocation for affordable rental housing for individuals or families earning 50% or less of the Area Median Income.

Financial Impact

The table below shows the original sources for the development, the new request and the total amount of funds provided by each source.

<u>Source of Funds</u>			
<u>Source</u>	<u>Original</u>	<u>New Request</u>	<u>Total</u>
City of Durham	688,750.00	211,250.00	900,000.00
Self Help	433,000.00	67,000.00	500,000.00
Housing for New Hope	28,250.00	21,750.00	50,000.00
Total	1,150,000.00	300,000.00	1,450,000.00

The City will provide a NSP grant in the amount of \$688,750.00 and a HOME grant of 211,250.00 for a total investment of \$900,000.00. Self Help will provide a construction to permanent loan in the amount of 500,000.00 at a 5.15% interest rate; amortized over thirty

years with a balloon payment due at the end of five years. The debt service on the Self Help loan is approximately \$2,730.00 per month or \$32,760.00 annually. HFNH will invest \$50,000.00 from private contributions into the renovation of the units. The grant and the low interest loan will allow for HFNH to keep rents affordable to the target income families. Rents for the two bedroom units will be 600.00 per month and \$700.00 per month for the three bedroom units.

SDBE Summary

The Department of Equal Opportunity and Equity Assurance has established a Minority SDBE participation goal of 16% and a Women's SDBE goal of 6% for the services to be provided under the agreement.